

7 June 2011

## Findel plc (“Findel” or “the Group”)

### Full Year Results for the 52 weeks ended 1 April 2011

#### Platform for Full Potential

Findel, a market leader in the UK home shopping, education supplies and healthcare markets, today announces its Full Year Results for the 52 week period ended 1 April 2011.

#### Financial Summary

	2011	2010
<b>Revenue*</b>	£532.6m	£547.0m
<b>Operating profit*</b>	£26.7m	£32.6m
<b>Profit before tax*</b>	£7.0m	£11.7m
<b>(Loss) before tax</b>	(£1.4m)	(£74.8m)
<b>Net debt</b>	£227.8m	£309.6m
<b>Net assets</b>	£116.4m	£10.7m
<b>Gearing ratio</b>	2.0x	29.0x
<b>Earnings / (loss) per share</b>	1.04p	(12.43p)

\*before exceptional items and terminated operations

#### Highlights

- Robust results in line with expectations with all businesses remaining profitable despite significant challenges
- Group’s funding position has been transformed, providing headroom to deliver turnaround strategy and restore value
- The Full Potential Review is providing us with a long-term operational plan to drive improved returns
- Already making good progress in delivering against these plans
- Group currently trading in line with expectations

#### Roger Siddle, Group Chief Executive, commented:

“These results show a remarkably resilient performance from our businesses against a difficult consumer backdrop and the unavoidable disruption caused by the long period of financial uncertainty that the Group has been through.

"Our five strong businesses and our reinvigorated management team are now firmly focused on the future. The restructured balance sheet gives us the stability we need to deliver on the Full Potential plans we outlined. It is early days, but we are confident we now have in place the right platform to deliver a much improved operational and financial performance and hence rebuild shareholder value."

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## **CHAIRMAN'S STATEMENT**

March 2011 marked the end of a long period of financial uncertainty for Findel and the start of its turnaround. A year which started with the discovery of accounting irregularities at the Education Supplies Division followed by an emergency debt refinancing in July 2010, ended with a clear turnaround strategy being agreed with shareholders and lenders and a comprehensive balance sheet restructuring being implemented. A secure financial platform to enable the group's five businesses to achieve their full potential has now been established and the hard work to implement the turnaround and restore shareholder value is already underway.

### **Group Financial Results**

At the end of my first full year as chairman, I can report that our businesses have delivered a commendable trading performance in the face of the group's extremely difficult financial position and an economic environment which remained challenging for retailers throughout the year.

Weak consumer confidence, uncertainty over public sector budgets and inventory shortages arising from cash constraints led to sales\* being 2.6% lower at £532.6m (2010: £547.0m). Continued tightening of gross margins was caused in part by heightened pressures within the supply chain, although the impact was offset in part by tight controls over overhead costs. Importantly, all five of the group's businesses remained profitable during the year, with total operating profits\* of £26.7m, down from £32.6m in 2010. After taking account of a series of non-recurrent items, pleasingly the underlying level of operating profit\* in each business (other than Kleeneze) was broadly unchanged.

The group reported a profit before tax\* of £7.0m (2010 restated: £11.7m). The statutory result for the year was a loss before tax of £1.4m (2010 restated: loss of £74.8m) after taking into account net exceptional costs of £4.4m (2010 restated: £21.9m) and losses from terminated operations of £4.0m (2010: loss of £64.6m).

### **Full Potential Review**

The findings of the Full Potential Review of the group's ongoing five businesses, which was conducted during the first half of the year, were detailed in our Interim Report. The investment required to implement the initiatives identified and rectify several years of underinvestment in the businesses is estimated at £35m. Having obtained this funding from the recent refinancing, the group has already started work on the implementation of these initiatives. There have been some early signs of success, including improvements to the buying processes for the Education Supplies Division and the injection of around £10m of additional working capital to ease supplier pressures. The systems upgrade for Express Gifts is on track. As previously indicated, the turnaround of the group's businesses will take three years to complete. However, I am pleased to report that progress to date is fully in line with our expectations.

### **Refinancing**

Following the recent refinancing, which successfully raised approximately £75m after costs through a Rights Issue and Placing, together with new committed debt facilities for a five-year period on commercial terms, the group's net debt position at the year-end was £227.8m, down some £81.8m during the year. Whilst this gearing level of 2.0x on a debt/equity basis still remains relatively high, the group's funding position has been transformed, providing sufficient funding headroom to allow the new executive management team to focus fully on executing the turnaround strategy and restoring value in the businesses. On behalf of the board, I would like to express our sincere thanks to all stakeholders and others who were involved in this complex refinancing, and particularly to our major shareholders for their support during this difficult period.

### **Employees**

It is difficult to describe the demands that have been placed upon our employees over the last year in executing two difficult financings and keeping our businesses delivering the profits and cash flow required whilst the financial future of the group was very uncertain. Restoring financial stability to the group has been an enormous team effort in which all of our employees have played their part. On behalf of all the stakeholders in Findel, I would like to thank them for an achievement of which they can be justifiably proud.

## **Outlook**

Following the successful refinancing, our focus is now firmly on executing the plans from the Full Potential Review and substantially improving business performance. The Board is pleased with progress to date with all major initiatives on track. The current year has started well and the group is trading in line with expectations. Whilst the external environment remains challenging, we are confident that we are following the right path to achieve improved shareholder returns over the medium term.

**David Sugden**  
Chairman

\* before exceptional items and terminated operations

## CHIEF EXECUTIVE'S STATEMENT

Findel has five profitable businesses within the group, each of which has the potential to contribute towards significantly improved performance over the next few years. The secure funding base and capital availability created by the recent refinancing now means that work has started in earnest, with our focus on repaying shareholders' faith. It is not a quick fix, however – our expectation is that it will take up to three years to achieve our goals.

### A year of turmoil

This has been a challenging year for all involved with Findel, but one that has resulted in a platform for superior performance going forwards.

As reported in our interim results, the group was forced to enter into renegotiations with its lenders at the start of the year following the discovery of accounting irregularities within the Education Supplies Division in January 2010, and entered into amended debt facilities in July. Understandably, given the group's then level of debt, the terms for these facilities were both challenging in terms of headroom and onerous in their conditions – resulting in a material level of management time needing to be dedicated to interacting with our lenders and in micro-managing liquidity across the group.

At the same time, the highly visible challenges faced by the group created difficulties in our supply chain, with a significant reduction or withdrawal of credit terms with many of our suppliers. This in turn led to a reduction in stock deliveries, which had a knock-on effect on sales and service, which then had a negative impact on cash generation. A damaging downward cycle developed. Our results for the year reflect the challenges of operating under these constraints for a very significant period – but also reflect the underlying potential of our businesses, with each business remaining profitable even under such difficult circumstances.

Looking forward, the Full Potential Review, whose findings we announced at the end of November, has given us a long-term operational plan to break this cycle and drive vastly improved returns. The restructuring of our balance sheet now gives us a strong platform to drive for results.

### We have already made significant progress:

- Within Express Gifts, our systems implementation programme is underway and on track. Our buying initiatives aimed at reducing lost sales have proved successful, and we have commenced a full review of our entire buying operation. The current performance of the business suggests that our focus on an improved value proposition for customers is proving effective, with the decline in cash margin seen during recent seasons having been reversed. Bad debt levels show a modest improvement on the prior year.
- Within Kleeneze, we have trialled a new distributor recruitment approach which has shown strong early promise. Although it is too early to say whether distributors recruited via this method will be as productive as traditional routes, we now have 12,400 distributors versus 9,600 at the same point last year.
- Within Kitbag, we have continued to make progress on new business wins, signing an online contract with UEFA for the Champions League and the European Championships in May 2011 and a multi-channel outsourcing contract with an established Premier League club (to start in season 2012/13 and to be announced shortly). We are also in the process of confirming a multi-channel arrangement with Leicester Tigers rugby club which is expected to complete shortly, together with an online contract for an international rugby organisation ahead of the Rugby World Cup. Current trading is strong, reflecting the success of our partner clubs (FA Cup winners, Premier League champions, Copa del Rey winners and both UEFA champions League finalists) although margins are depressed due to the simultaneous need for end of season and other obsolete stock clearance. Work remains to be done on improving the overall profitability of the business.
- Within our Education division, we have made significant progress on our buying initiatives - rationalising product ranges to reduce both complexity and cost prices, and renegotiating trading terms with our top suppliers. We have also restructured our selling activities and introduced telesales management with some success – those customers managed within this service moving from year-on-year sales decline to growth. Current business performance suggests that where we

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have been able to coincide new catalogues with our newly improved service levels, we are seeing signs of our business recovering. With older publications, however, it will be a longer battle to convince customers of our improved capabilities.

- Within Healthcare, we have been successful in winning 4 new Integrated Community Equipment Supplies (ICES) contracts totalling approximately £9.6m in annual value, together with other contracts providing an additional £0.6m. Although, disappointingly we also lost 2 ICES contracts where we were the incumbent, totalling £7.2m annual value, overall we have maintained and increased our market leading position.
- Approximately £10m of the funds raised by our rights issue, received by the company on 22 March 2011, were put to immediate use to reduce tension in our supply chain, which has had a beneficial effect across all businesses. One credit insurer has already restored cover to former levels, and is considering extending that cover even further. Discussions are underway with other credit insurers.
- Over the last 15 months, there have been major changes in the management team. There has been wholesale change in Group functions and in the management of our Education division. We have reinforced the management team in Kitbag, and are currently looking to do the same within Express Gifts and Kleeneze.
- The detailed forensic review that was undertaken by KPMG following the discovery of accounting irregularities within the Education Supplies Division concluded that there were no material issues in any of the other businesses. Nonetheless, it highlighted that the governance and control environment within the group needed to be strengthened and we have acted to do so. The size and capability, but not the cost, of the group central functions has been increased.

Although the coming year is likely to be one of consolidation, we are excited about the future. We remain very confident that we have set the right course that will add value for all our stakeholders.

## FINANCIAL REVIEW

### Group operating profit before exceptional items and terminated operations

We have improved the level of transparency of the businesses' performance for our external stakeholders. The results for the three businesses in the Home Shopping Division, Express Gifts, Kleeneze and Kitbag, are now shown separately. The historic practice of showing a "benchmark" operating profit, which excluded certain relevant items, has been discontinued in favour of a more conventional GAAP-compliant measure of performance.

In the following section, all references to operating profit marked with an asterisk are before exceptional items and terminated operations.

Group profit before tax\* was £7.0m in 2011, down £4.7m on 2010, as summarised below.

	<b>2011</b> <b>£000</b>	<b>2010</b> <b>£000</b>	<b>Change</b> <b>£000</b>
Operating profit*:			
Express Gifts	16,506	20,231	(3,725)
Kleeneze	4,443	6,458	(2,015)
Kitbag	1,867	1,723	144
Education Supplies	1,746	2,096	(350)
Healthcare	2,147	2,559	(412)
Share of associate loss	–	(434)	434
	<hr/> 26,709	<hr/> 32,633	<hr/> (5,924)
Net finance costs*	(19,698)	(20,971)	1,273
Profit before tax*	<hr/> 7,011	<hr/> 11,662	<hr/> (4,651)

After taking account of a number of non-recurrent items, the underlying operating performance of each business in 2011 was broadly in line with the previous year, save for Kleeneze where a fall in distributor numbers for much of the year led to a 7% reduction in revenue.

The performance of each business unit is discussed in turn below.

### Express Gifts

	<b>2011</b> <b>£000</b>	<b>2010</b> <b>£000</b>	<b>Change</b> <b>£000</b>
Revenue	222,257	229,040	(6,783)
Cost of sales	(97,927)	(96,396)	(1,531)
Gross profit	<hr/> 124,330	<hr/> 132,644	<hr/> (8,314)
Trading costs	(107,824)	(112,413)	4,589
Operating profit*	<hr/> 16,506	<hr/> 20,231	<hr/> (3,725)

In response to the deteriorating economic environment and to limit the impact of this on its bad debt exposures, Express Gifts introduced tighter underwriting standards for new credit customers in FY2010, which have been maintained throughout FY2011. This resulted in the business starting the year with a lower customer base than in FY2010 which in turn contributed to the number of orders received during FY2011 falling by 3.9%. However, the impact of this upon sales revenue was mitigated in part by a 3.0% increase in the average order value. Financial services income also reduced slightly, primarily from lower administration fees reflecting an improvement in the underlying quality of the credit portfolio, such that total revenue for Express Gifts in FY2011 fell by 3.0% to £222.3m.

The effects of the significant reduction in credit insurance available, together with concerns about the group's financial condition prior to the recent refinancing, made the relationship with Express Gifts' suppliers challenging during FY2011 with a corresponding rise in procurement costs. In addition, the early impact of the increased customer value proposition piloted in the Autumn/Winter catalogue contributed to a reduction in gross margin to 55.9% in FY2011.

Increased focus upon collections and existing customers resulted in the bad debt charge for FY2011 reducing by 4% compared to FY2010, with the proportion of customers paying to terms returning to its

highest level for more than five years. In addition, the business has had a tight focus upon its fixed overheads, particularly its building costs, reducing total operating costs\* by 4.1% during the year. The net operating profit\* for the year was £16.5m, down £3.7m on FY2010. In a challenging market, this is considered to be a solid trading performance from the group's largest business.

## Kleeneze

	<b>2011</b> <b>£000</b>	<b>2010</b> <b>£000</b>	<b>Change</b> <b>£000</b>
Revenue	59,872	64,356	(4,484)
Cost of sales	(19,305)	(19,620)	315
Gross profit	40,567	44,736	(4,169)
Trading costs	(36,124)	(38,278)	2,154
Operating profit*	4,443	6,458	(2,015)

Kleeneze had a challenging year in FY2011, with sales badly affected by the adverse weather in December and January, a rise in VAT which was largely absorbed by the company, together with sustained end customer caution in doorstep spending combined with a lower level of response to distributor advertising campaigns as a result of the economic downturn. However, there were some signs of improvement in the last two months of the year, brought about in part by the increased number of distributors, which reduced the annual rate of decline in revenue from 9% in December 2010 to 7% for the year as a whole.

As with other businesses in the group, increased pressure from suppliers brought on by the group's financial position led to a reduction in gross margin, although lower commission payments to distributors, as a result of lower sales revenue, contributed to a £2.2m saving in operating costs\*. The operating profit\* of £4.4m, representing a 7.4% return on sales was still a strong performance in a difficult market and challenging corporate conditions, though naturally disappointing versus the prior year.

## Kitbag

	<b>2011</b> <b>£000</b>	<b>2010</b> <b>£000</b>	<b>Change</b> <b>£000</b>
Revenue	58,017	48,309	9,708
Cost of sales	(31,300)	(27,355)	(3,945)
Gross profit	26,717	20,954	5,763
Trading costs	(24,850)	(19,231)	(5,619)
Operating profit*	1,867	1,723	144

Kitbag continued to see a number of new contracts starting during FY2011, particularly its new multi-channel contracts with both Manchester City FC and Nottingham Forest FC, leading to a 20.1% increase in revenue to £58.0m. The main benefit of the multi-channel contracts for Kitbag is an ability to achieve higher overall product margins through having greater control over the sales process – although this benefit is partially offset by the higher costs of operating the related stores, particularly in the first years of operation. This effect is clearly shown in the 2011 results, which saw a significant widening of the overall gross margin from 43.4% to 46.1%, offset in part by an increase in staff and building costs which are shown within operating costs.

The Kitbag business has increased significantly in size over the last three years, with revenue having more than doubled since 2008. During this time, overheads have increased at a faster rate than gross margin due to the natural challenges placed by significant growth on operating practices, as well as to allow the business to gear up for further growth. Work is currently underway to revise processes and IT systems to manage a greater level of activity, whilst also adjusting the cost base within the business to improve profitability in future years.

## Education Supplies

	<b>2011</b> <b>£000</b>	<b>2010</b> <b>£000</b>	<b>Change</b> <b>£000</b>
Revenue	125,778	141,800	(16,022)
Cost of sales	(83,403)	(92,272)	8,869
Gross profit	42,375	49,528	(7,153)
Trading costs	(40,629)	(47,432)	6,803
Operating profit*	1,746	2,096	(350)

The severe problems in the supply base caused by the group's financial position led to an inability to source efficiently, particularly during the last six months. A number of key suppliers suspended further trading with the business, with others reducing their credit exposure. When combined with a number of other inefficient business processes, the level of customer service was significantly affected.

Coupled with the changing economic conditions of the public sector in the UK and the absence of large one-off International Project sales achieved in FY2010 not repeated in FY2011, revenues fell £16.0m (11.3%) versus 2010.

To compensate partially, an ongoing focus on overhead improvements continued in FY2011 resulting in £6.8m of year-on-year savings, with approximately half of the savings realised being full year impact of FY2010 initiatives. Overall, while FY2011 results were disappointing, the changes we are making to the business are having a positive effect. Following the cash injection from the rights issue, supplier relationships have been improved significantly and the supply chain is now functioning more efficiently.

Whilst public sector funding in the UK is expected to reduce, this is likely to encourage the achievement of best value for money in procurement. Also, non-IT resource spending, which is the core focus of the Education Supplies Division, is only expected to reduce by around 2% in 2011/12. Although the challenging market conditions mean that the turnaround will be a multi-year effort, we are confident in the future.

## Healthcare

	<b>2011</b> <b>£000</b>	<b>2010</b> <b>£000</b>	<b>Change</b> <b>£000</b>
Revenue	66,664	63,508	3,156
Cost of sales	(52,992)	(49,052)	(3,940)
Gross profit	13,672	14,456	(784)
Trading costs	(11,525)	(11,897)	372
Operating profit*	2,147	2,559	(412)

The performance of the Healthcare Division is significantly impacted by the mix of its contracts. During 2011, the Healthcare Division successfully renewed its Bournemouth & Poole ICES contract and its North London Mobility contract. The Dorset ICES contract was lost at the time of rebid, coming to an end on 31 March 2010 and therefore adversely impacting the division's financial performance in FY2011 as compared to FY2010, although this was partially offset by the new ICES contract for Shropshire, which commenced on 1 January FY2011. Underlying growth in the continuing contracts was strong, contributing to the overall increase in revenues.

Gross margin was depressed by changes in the contract mix and the impact of the government's austerity measures, which impacted the public sector purse.

Operating costs\* decreased slightly due to continued focus on cost leadership and operating efficiencies. This resulted in an operating profit\* of £2.1m in FY2011 as compared to £2.6m in the prior year. The operating result of the Healthcare Division is relatively stable due to the nature of the sector and the fact that contracts are awarded for a period of several years, which secures revenues and profits over the medium term.

## Exceptional items

Exceptional operating costs (excluding items in terminated operations) of £20.6m (2010 restated: £16.3m) were incurred as set out in note 3 to the financial statements. In FY2010 (restated) there was also a one-off credit of £6.6m relating to the curtailment of the group's defined benefit pension schemes. As part of the equity and debt refinancing described below, the group recognised an exceptional gain of £32.9m in relation to the release of debt and issuance of new convertible shares.

Exceptional finance costs of £16.6m and £12.2m were incurred in FY2011 and FY2010 respectively in respect of refinancing.

## Terminated operations

The businesses of Confetti, IWOOT and the Webb Group, which had either been sold or were in the process of being sold at the time of the 2010 accounts, were sold during the current year. The results attributable to these businesses in this period total a loss of £2.5m. In addition, the total loss incurred upon the disposal of these businesses was £1.5m.

## Pensions

As set out in note 1 to the financial statements, the group has moved away from the corridor approach for recognising actuarial gains and losses in respect of the group's defined benefit schemes in the current financial period ahead of the IASB's proposed amendment to remove the corridor option. As a result of this change, the results for 2010 have been restated to reduce trading costs by £0.1m and increase the exceptional pension curtailment gain by £1.2m. The group has continued to make additional voluntary contributions to the schemes totalling £3.2m in the current financial period (2010: £3.2m) to improve the funding levels. The net deficit at the end of 2011 measured in accordance with IAS19 eased to £4.7m (2010 restated: £23.3m) as a result of actuarial gains in the year.

## Taxation

The group obtained relief in respect of taxation totalling £9.9m (2010: £0.6m). This principally related to movements in the deferred taxation position, as set out in note 5 to the financial statements. It is likely that losses incurred in prior periods will be utilised against taxable profits in the short term. However, in later periods it is anticipated that the group's effective tax rate will return to broadly the main rate of UK corporation tax, which is expected to reduce from 26% to 24% by April 2014.

## Equity and debt refinancing

As a result of the accounting irregularities in the group's Education Supplies division in early 2010, certain representations and warranties made in the connection with the bank facilities entered into in July 2009 were found to be untrue. Consequently, as a result of this breach of covenants, all of the bank debt owed by the group was reclassified as falling due within one year in the consolidated balance sheet at 2 April 2010. The group subsequently entered into amended credit facilities in July 2010, which had a scheduled maturity date of January 2012.

On 11 February 2011, the group announced a 5 for 2 rights issue of 1,224m ordinary shares at 6.54p per share and the placing of 5.8m ordinary shares at 8.53p per share. This was approved at the company's Extraordinary General Meeting held on 28 February 2011, and the shares were issued on 16 March 2011. Total proceeds raised were £80.5m, less £1.1m relating to shares transferred to the Employee Benefit Trust, and associated costs of the equity raising of £4.8m.

£40m of the proceeds was used to repay outstanding debt under the group's bank facilities immediately. In addition to this, on 22 March 2011, the group issued 166,878,704 new unlisted convertible shares to the group's lenders in consideration for the release of a further £40m of outstanding debt.

The group also entered into agreements for the provision of amended credit facilities on 11 February 2011, which replaced its previous credit facilities, and which comprised:

- revolving credit facilities totalling £196.8m; and
- securitisation facilities for Express Gifts totalling £105.0m.

These facilities became effective on 22 March 2011 and have a five-year term. Amounts drawn under the revolving credit facilities carry interest at a margin of 3% over LIBOR.

## Summary balance sheet

	2011 £000	2010 £000	Change £000
Fixed assets	151,474	162,351	(10,877)
Net working capital	199,325	196,013	3,312
Net debt	(227,804)	(309,598)	81,794
Other net liabilities	(6,546)	(38,093)	31,547
Net assets	116,449	10,673	105,776

Consolidated net assets amounted to £116.4m at the period end (2010 restated: £10.7m), reflecting a combination of the equity raising mentioned above and the level of other items charged to the income statement during the period. These net assets are equivalent to 6.8p per share.

## Cash flow and borrowings

The group's net cash from operating activities (before exceptional items) was an inflow of £6.3m, compared with an inflow of £20.4m in the previous year. This reflects the non-recurrence of an £8.9m tax recovery from 2010, lower operating profit and the impact of tighter credit terms from suppliers and limited availability of credit insurance to our suppliers.

After taking into account £20.6m of exceptional operating costs and £16.6m of exceptional refinancing costs paid during the year, net cash from operating activities was an outflow of £30.9m (2010: inflow of £8.2m). The group's net debt at the year-end was £227.8m, down some £81.8m from the previous year-end. This reflects the £110m reduction of net debt arising from the recent refinancing, offset by the exceptional costs of the July 2010 refinancing and the release of some £10m of additional working capital into the supply chain at the end of the year. The effect of the refinancing was to bring balance sheet gearing down to 2.0x, compared to 29.0x at the end of 2010.

## Shareholder return and dividends

Basic earnings per share were 1.04p compared to a loss per share of 12.43p (restated) last year. The terms of the new credit facilities prohibit the payment of dividends for so long as those facilities are in place. This is consistent with the board's belief that the group should improve its liquidity and to invest in its operations rather than paying dividends for the time being.

## Principal risks and uncertainties

There are a number of risks and uncertainties that could impact the performance of the group. Group and divisional management, through the budgeting, forecasting and monthly review of actual results, review business risks and seek to mitigate these risks as far as possible. The risks relate to three key areas of review by the group being those specific to the group's divisions, economic and regulatory risks, and operational risks.

### *Risks specific to the group's divisions*

The business of the Express Gifts division is seasonal, and is more heavily weighted towards the second half of the financial year. In addition the division is reliant on credit scoring techniques in the recruitment of new customers. In the Education Supplies division, the September and March "Back-to-School" periods account for much of the market's annual sales and profits. The group is focused on delivering a high quality of service and being well prepared for managing peak demand in all of its businesses.

The Education Supplies division could be adversely affected if a local authority were to withdraw "Approved Supplier" status. Furthermore the Healthcare division may fail to successfully renew existing contracts or win new contracts. The group is focused on maintaining appropriate quality of service to ensure it retains this supplier status and retains and wins new contracts.

## *Economic and regulatory risks*

The group may be negatively affected by the impact of the recent economic downturn on consumer spending or the ability of its customers to service their debts. The group has a long track record of managing its customer base to achieve its twin goals of sales growth and customer credit risk management.

The impact of the forthcoming reductions in government spending on education or healthcare may adversely impact the performance of the Education Supplies or Healthcare divisions and may in turn have a material adverse effect on the group's business. As both divisions are large, efficient suppliers in their markets, this may widen the opportunities available to the group due to its scale and efficiency.

The continued or prolonged withdrawal of credit insurance traditionally provided to the group's suppliers could have an adverse effect on the group's business. In addition the failure if the group to meet its debt obligations or comply with the terms of its credit facilities could have a similar impact.

Express Gifts is regulated by the FSA as an insurance intermediary and, as such, is permitted to sell general insurance products, including Payment Protection Insurance ("PPI"). It ceased selling this product in August 2008 and, to date, has received a low number of complaints as a proportion of its total PPI sales. With the publication of its final policy statement in August 2010, the FSA has imposed significant changes with respect to the handling of PPI mis-selling complaints, following which the group reviewed its claims handling processes. Notwithstanding the low number of complaints received and upheld to date, it is possible that Express Gifts may receive a greater number of new claims from customers in the future.

Interruptions in the availability or flow of stock from third party product suppliers or defaults by tenants on sub-let properties could have an adverse effect on the group's business. To mitigate this risk, the group purchases products from a wide variety of domestic and international third party product suppliers.

The group's operations may be adversely affected by legal, regulatory and other developments in countries in which it operates. The group is subject to a range of legal and regulatory requirements originating from the UK (particularly the Consumer Credit Act and Data Protection), the other countries in which it operates and in the European Union, particularly in areas of consumer protection, product safety, competition, provision of credit, selling of financial services and extended warranties, copyright royalties, levies, health and safety, taxation, environment, labour and employment practices (including pensions). The group manages these risks in conjunction with third party professionals, where appropriate.

Deteriorating markets and reputational risks could result in the impairment of goodwill, intangible assets (including brands) and property, plant and equipment, which may adversely affect the group's financial position. The group focuses on maintaining the highest quality of service to mitigate against any impairment in the value of its businesses.

## *Operational risk*

The group is dependent on its senior management. The group has entered into employment contracts and taken other steps to encourage the retention of these individuals, and to identify and retain additional personnel. The group's business may be affected by the default of third parties in respect of monies owing by them to the group. However the majority of amounts owed to the group comprise small balances spread across a large number of accounts and active consideration of credit risk is carried out throughout the group.

The group has funding risks relating to its defined benefit pension schemes. These schemes are subject to risks regarding the relative amount of each of the scheme's assets, which is affected by the value of investments held by the scheme and the returns derived from such investments, as compared to its liabilities, which are affected by changes in life expectancy, inflation and future salary increases. To improve the funding of these schemes the group has agreed funding plans with the schemes' trustees and as a result makes additional contributions to the schemes.

The group may fail to keep up with advances in internet technology. Furthermore information technology systems failure or disruption could impact the group's day-to-day operations. The group relies heavily on its information technology systems to record and process transactions and manage its operations as well as to enable its customers to purchase products on-line and over the phone. The group has seen significant growth in the proportion of its home shopping sales which are derived from the internet, and these now represent over 60% of the total sales of the Home Shopping division. The group is focused on investing appropriately in its information technology systems and maintaining its e-commerce capabilities.

# FINDEL PLC

The group is dependent on third parties for outsourcing functions. The group carries out extensive reviews of any potential outsourcing partner. Loss of, or disruption to, the group's distribution centres and administrative sites would have a material adverse effect on the group's business. The group has established disaster recovery procedures designed to minimise the impact of any such disruption.

## *Financial risk*

The group is reliant on the continued provision of credit facilities, and the ability to refinance them as they fall due, to support its operations as it seeks to reduce its net borrowings to a more appropriate level. The new facility agreements which mature in March 2016 include various financial covenants which, if not complied with, would enable the lenders to seek immediate repayment of amounts outstanding under the outstanding credit facilities.

**Findel plc.**  
**Group Financial Information**

**Condensed Consolidated Income Statement**

Period ended 1 April 2011

	Before exceptional items and terminated operations	Exceptional items (excluding items in terminated operations)	Terminated operations	Total
	£000	£000	£000	£000
<b>Revenue</b>	532,588	-	8,161	540,749
Cost of sales	(284,927)	-	(4,973)	(289,900)
<b>Gross profit</b>	247,661	-	3,188	250,849
Trading costs	(220,952)	(20,617)	(5,703)	(247,272)
Analysis of operating profit/(loss):				
- <b>EBITDA</b>	37,383	(20,617)	(2,038)	14,728
- Depreciation and amortisation	(9,886)	-	(477)	(10,363)
- Impairment	(1,301)	-	-	(1,301)
- Profit on disposal of land and buildings	513	-	-	513
<b>Operating profit/(loss)</b>	26,709	(20,617)	(2,515)	3,577
Loss on disposal of businesses	-	-	(1,482)	(1,482)
Gain on release of debt in consideration of allotment of convertible ordinary shares	-	32,874	-	32,874
Analysis of finance costs:				
- Movement on fair value of derivatives	-	(377)	-	(377)
- Other	(25,562)	(16,272)	-	(41,834)
Finance costs	(25,562)	(16,649)	-	(42,211)
Analysis of finance income:				
- Movement on fair value of derivatives	6	-	-	6
- Other	5,858	-	-	5,858
Finance income	5,864	-	-	5,864
<b>Profit/(loss) before tax</b>	7,011	(4,392)	(3,997)	(1,378)
Income tax (expense)/income	(2,168)	12,070	-	9,902
<b>Profit/(loss) for the period</b>	4,843	7,678	(3,997)	8,524
<b>Earnings per share</b>				
Basic				1.04p
Diluted				1.04p

All results are from continuing operations.

## Condensed Consolidated Income Statement

Period ended 2 April 2010

	Before exceptional items and terminated operations	Exceptional items (excluding items in terminated operations)	Terminated operations	Total
	£000 (Restated)	£000 (Restated)	£000 (Restated)	£000 (Restated)
<b>Revenue</b>	547,013	-	53,162	600,175
Cost of sales	(284,695)	-	(32,192)	(316,887)
<b>Gross profit</b>	262,318	-	20,970	283,288
Trading costs	(229,251)	(9,695)	(85,606)	(324,552)
Share of result of associate	(434)	-	-	(434)
Analysis of operating profit/(loss):				
- <b>EBITDA</b>	45,811	(9,695)	(2,005)	34,111
- Depreciation and amortisation	(11,018)	-	(2,445)	(13,463)
- Impairment	(2,160)	-	(60,186)	(62,346)
- Profit on disposal of land and buildings	-	-	-	-
<b>Operating profit/(loss)</b>	32,633	(9,695)	(64,636)	(41,698)
Finance costs	(31,266)	(12,157)	-	(43,423)
Analysis of finance income:				
- Movement on fair value of derivatives	3,213	-	-	3,213
- Other	7,082	-	-	7,082
Finance income	10,295	-	-	10,295
<b>Profit/(loss) before tax</b>	11,662	(21,852)	(64,636)	(74,826)
Income tax (expense)/income	(3,242)	3,803	-	561
<b>Profit/(loss) for the period</b>	8,420	(18,049)	(64,636)	(74,265)
<b>Loss per share</b>				
Basic				(12.43)p
Diluted				(12.43)p

All results are from continuing operations.

The income statement presentation has been restated, see note 1. The income statement has also been restated to reflect the accounting policy change in respect of defined benefits pension schemes, see note 1.

**Condensed Consolidated Statement of Comprehensive Income**  
 Period ended 1 April 2011

	2011	2010
	£000	£000
		(Restated)
Loss for the period (as previously stated)		(75,563)
Prior year adjustment (note 1)		1,298
Profit/(loss) for the period (restated)	<b>8,524</b>	(74,265)
Actuarial gains/(losses) on defined benefit pension schemes	<b>15,822</b>	(16,443)
Cash flow hedges	<b>(86)</b>	-
Currency translation loss arising on consolidation	<b>(146)</b>	(590)
Tax relating to components of comprehensive income	<b>1,234</b>	-
<b>Total comprehensive income for the period</b>	<b>25,348</b>	<b>(91,298)</b>

The total comprehensive income for the period is attributable to the equity shareholders of the parent company Findel plc.

# FINDEL PLC

## Condensed Consolidated Balance Sheet

At 1 April 2011

	2011 £000	2010 £000 (Restated)	2009 £000 (Restated)
<b>ASSETS</b>			
<b>Non-current assets</b>			
Goodwill	47,299	47,299	54,073
Other intangible assets	66,528	70,757	78,175
Property, plant and equipment	37,647	44,295	52,784
Investments in associates	-	-	622
Deferred tax assets	4,252	-	-
Derivative financial instruments	1,052	-	-
Loans and receivables due from associates	-	-	33,654
	<b>156,778</b>	<b>162,351</b>	<b>219,308</b>
<b>Current assets</b>			
Inventories	70,682	73,607	74,024
Trade and other receivables	194,953	210,355	229,580
Current tax receivable	-	-	1,954
Derivative financial instruments	155	-	-
Cash at bank and in hand	25,582	44,331	9,924
	<b>291,372</b>	<b>328,293</b>	<b>315,482</b>
<b>Total assets</b>	<b>448,150</b>	<b>490,644</b>	<b>534,790</b>
<b>LIABILITIES</b>			
<b>Current liabilities</b>			
Trade and other payables	61,099	81,269	98,290
Current tax liabilities	7,258	7,393	-
Obligations under finance leases	5	1,006	1,393
Bank overdrafts and loans	-	352,918	42,204
Derivative financial instruments	-	6	3,219
Provisions	1,884	1,661	-
	<b>70,246</b>	<b>444,253</b>	<b>145,106</b>
<b>Non-current liabilities</b>			
Bank loans	253,381	-	341,558
Obligations under finance leases	-	5	854
Provisions	3,327	5,019	-
Deferred tax liabilities	-	7,345	6,752
Retirement benefit obligation	4,747	23,349	15,967
	<b>261,455</b>	<b>35,718</b>	<b>365,131</b>
<b>Total liabilities</b>	<b>331,701</b>	<b>479,971</b>	<b>510,237</b>
<b>NET ASSETS</b>	<b>116,449</b>	<b>10,673</b>	<b>24,553</b>
<b>EQUITY</b>			
<b>Capital and reserves</b>			
Share capital	125,942	24,472	4,257
Capital redemption reserve	403	403	403
Share premium account	93,454	79,240	24,003
Translation reserve	556	702	1,292
Accumulated losses	(103,906)	(94,144)	(5,402)
<b>TOTAL EQUITY</b>	<b>116,449</b>	<b>10,673</b>	<b>24,553</b>

The 2010 and 2009 balance sheet have been restated solely to reflect the accounting policy change in respect of defined benefit pension schemes, see note 1.

## Condensed Consolidated Cash Flow Statement

Period ended 1 April 2011

	2011 £000	2010 £000 (Restated)
Profit/(loss) for the period	8,524	(74,265)
Income tax income	(9,902)	(561)
Finance income	(5,864)	(10,295)
Finance costs	42,211	43,423
Gain on release of debt in consideration of allotment of convertible ordinary shares	(32,874)	-
Loss on disposal of businesses	1,482	-
<b>Operating profit/(loss)</b>	<b>3,577</b>	<b>(41,698)</b>
<b>Adjustments for:</b>		
Depreciation of property, plant and equipment	7,535	8,338
Impairment of property, plant and equipment and software and IT development costs	1,301	7,422
Amortisation of intangible assets	2,828	5,125
Impairment of goodwill and associated intangible assets	-	52,829
Share-based payment (credit)/expense	(1,321)	2,186
Profit on disposal of property, plant and equipment	(575)	(63)
Non-cash pension curtailment gain	-	(6,624)
Pension contributions less income statement charge	(3,210)	(3,241)
Share of result of associate	-	434
<b>Operating cash flows before movements in working capital</b>	<b>10,135</b>	<b>24,708</b>
(Increase)/decrease in inventories	(632)	5,040
Decrease in receivables	13,732	16,403
Decrease in payables	(12,946)	(21,280)
(Decrease)/increase in provisions	(1,469)	6,680
<b>Cash generated from operations</b>	<b>8,820</b>	<b>31,551</b>
Income taxes (paid)/received	(597)	8,872
Interest paid	(22,446)	(20,034)
Exceptional financing costs paid	(16,649)	(12,157)
<b>Net cash from operating activities</b>	<b>(30,872)</b>	<b>8,232</b>
<b>Investing activities</b>		
Interest received	9	2,072
Proceeds on disposal of property, plant and equipment	5,463	474
Purchases of property, plant and equipment and software and IT development costs	(6,845)	(8,934)
Loan advanced to associate	-	(8,030)
Acquisition of subsidiaries	-	643
Sale of subsidiaries	(2,030)	-
<b>Net cash used in investing activities</b>	<b>(3,403)</b>	<b>(13,775)</b>
<b>Financing activities</b>		
Repayments of obligations under finance leases	(1,006)	(1,251)
Proceeds on issue of shares	74,623	74,381
Movements on bank loans	(50,517)	(10,494)
Securitisation loan (repaid)/drawn	(7,470)	2,348
<b>Net cash from financing activities</b>	<b>15,630</b>	<b>64,984</b>
<b>Net (decrease)/increase in cash and cash equivalents</b>	<b>(18,645)</b>	<b>59,441</b>
Cash and cash equivalents at the beginning of the period	44,331	(15,046)
Effect of foreign exchange rate changes	(104)	(64)
<b>Cash and cash equivalents at the end of the period</b>	<b>25,582</b>	<b>44,331</b>

## Condensed Consolidated Statement of Changes in Equity

Period ended 1 April 2011

	Share capital	Capital redemption reserve	Share premium account	Translation reserve	(Accumulated losses) / retained earnings	Total equity
	£000	£000	£000	£000	£000	£000
At 3 April 2009 (as previously reported)	4,257	403	24,003	1,292	2,353	32,308
Prior year adjustment	-	-	-	-	(7,755)	(7,755)
At 3 April 2009 (restated)	4,257	403	24,003	1,292	(5,402)	24,553
Total comprehensive income for the period (restated)	-	-	-	(590)	(90,708)	(91,298)
Share issues	20,215	-	55,237	-	(1,071)	74,381
Share warrants issue	-	-	-	-	851	851
Share-based payments	-	-	-	-	2,186	2,186
At 2 April 2010 (restated)	24,472	403	79,240	702	(94,144)	10,673
Total comprehensive income for the period	-	-	-	(146)	25,494	25,348
Share issues	68,596	-	14,214	-	(1,061)	81,749
Share-based payments	-	-	-	-	(1,321)	(1,321)
Transfer to share capital to record convertible ordinary shares at their nominal value	32,874	-	-	-	(32,874)	-
At 1 April 2011	125,942	403	93,454	556	(103,906)	116,449

In the 2010 Annual Report, the merger reserve, own shares and liability for share-based payments were disclosed separately. These have now been aggregated within accumulated losses.

## Findel plc Notes to the Group Financial Information

### 1. Basis of preparation of consolidated financial information

The financial information set out herein does not constitute the company's statutory financial statements for the years ended 1 April 2011, 2 April 2010 or where disclosed, 3 April 2009 but is derived from those financial statements. Statutory financial statements for 2010 and 2009 have been delivered to the Registrar of Companies, and those for 2011 will be delivered in due course. The financial statements were approved by the Board of directors on 6 June 2011. The auditors have reported on those financial statements; their reports were (i) unqualified, (ii) did not include a reference to any matters to which the auditors drew attention by way of emphasis without qualifying their report and (iii) did not contain a statement under Section 237 (2) or (3) of the Companies Act 1985 in respect of the financial statements for 2009 nor a statement under Section 498 (2) or (3) of the Companies Act 2006 in respect of the financial statements for 2011 or 2010.

The Group financial information has been prepared in accordance with International Financial Reporting Standards ("IFRS") as adopted for use within the European Union and in accordance with the accounting policies included in the Annual Report for the period ended 1 April 2011 except as stated below.

#### ***New and amended accounting standards***

The following amendments to existing standards and IFRICs have been adopted. The changes have had no material impact on the financial statements.

- IFRS 3, "Business Combinations (2008)" requires some significant changes to the way business combinations are accounted for. All costs associated with business combinations are expensed directly to the Income Statement. Additionally any changes to contingent consideration classified as debt must now be dealt with through the Income Statement subsequent to acquisition.
- IFRS 2, "Group Cash-settled Share-based Payment Transactions". The amendments clarify the scope of IFRS 2, as well as the accounting for group cash-settled share-based payment transactions in the separate (or individual) financial statements of an entity receiving the goods or services when another group entity or shareholder has the obligation to settle the award.
- Improvements to IFRSs: in April 2009 the International Accounting Standards Board issued its second omnibus of amendments to its standards, primarily with a view to removing inconsistencies and clarifying wording. The adoption of these amendments, which are effective for accounting periods beginning on or after 1 January 2010, did not have any impact on the reporting of the financial position or performance of the group.

As referred to below, during the year, IFRIC 19, "Extinguishing Financial Liabilities with Equity Instruments", which became effective for annual periods beginning on or after 1 July 2010 was adopted early. This did not have any impact on the prior years but was applied with respect to convertible shares issued during the year.

#### ***Income statement presentation***

##### *Benchmark profit*

The income statement presentation has been amended in the current period to remove the reference to "benchmark profit" in favour of considering operating profit and profit before tax before exceptional items and terminated operations, which are defined below.

##### *Exceptional items*

Exceptional items are items which the directors consider to be significant both individually and in aggregate, and are non-recurring in nature. These are described in note 3.

##### *Terminated operations*

Terminated operations relate to businesses which have been sold or are in the process of being sold or exited at the period end and have been separated to enhance the comparability of the ongoing business. They do not meet the size criteria to be accounted for a discontinued operation as defined in IFRS 5, "Non-current assets held for sale and discontinued operations".

## **Restatements in respect of prior years - Retirement benefit costs**

The group has both defined benefit and defined contribution plans. A defined benefit plan is a pension plan that defines an amount of pension benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and compensation. A defined contribution plan is a pension plan under which the group pays fixed contributions into an independently administered fund. The group has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods. The cost of providing these benefits, recognised in the income statement, comprises the amount of contributions payable to the schemes in respect of the year.

For defined benefit retirement plans, the cost of providing benefits is determined using the Projected Unit Credit method, with actuarial valuations being carried out at each balance sheet date.

Previously, actuarial gains and losses that exceeded 10% of the greater of the present value of the group's defined benefit obligation and the fair value of the plan assets were amortised over the expected average remaining lives of the participating employees. The IASB is proposing to remove the choice of accounting on this corridor approach basis. Therefore, in advance of the proposal becoming endorsed, the group has adopted a change in policy and now recognises actuarial gains and losses immediately in the Consolidated Statement of Comprehensive Income as permitted under IAS 19.

Past service cost is recognised immediately to the extent the benefits are already vested and otherwise are amortised on a straight-line basis over the average period until the benefits become vested.

Current and past service costs and settlement gains are recognised within administrative expenses in the income statement. Interest is included within finance costs.

The liability recognised in the balance sheet in respect of defined benefit pension plans is the present value of the defined benefit obligation at the balance sheet date less the fair value of plan assets, together with adjustments for past service costs.

As a result of this change in policy, the amounts disclosed in the accounts have been changed, and the comparatives restated, as follows:

	Pension liability £000	Retained earnings / (accumulated losses) £000
Balance reported at 3 April 2009	(8,212)	2,353
Effect of full provision accounting	<u>(7,755)</u>	<u>(7,755)</u>
Restated balance at 3 April 2009	<u>(15,967)</u>	<u>(5,402)</u>
Balance reported at 2 April 2010	(449)	(71,244)
Effect of full provision accounting	<u>(22,900)</u>	<u>(22,900)</u>
Restated balance at 2 April 2010	<u>(23,349)</u>	<u>(94,144)</u>

As a result of the change in policy, the impact on the results for 2010 was to reduce trading costs in the year by £83,000 and increase the exceptional pension curtailment gain by £1,215,000. Therefore the total increase in profit before tax in the year was £1,298,000; the reduction in loss per share was 0.22p. In addition, actuarial losses of £16,443,000 have now been recognised in the consolidated statement of comprehensive income. The deferred tax asset on net retirement benefit obligations was not recognised.

## **Going concern basis**

In determining whether the group's financial statements for the period ended 1 April 2011 can be prepared on a going concern basis, the directors considered all factors likely to affect its future development, performance and its financial position, including cash flows, liquidity position and borrowing facilities and the risks and uncertainties relating to its business activities in the current challenging economic climate. The financial position of the group, its cash flows, liquidity position and borrowing facilities and the key risks and uncertainties are set out in further detail above.

The directors have reviewed the trading and cash flow forecasts as part of their going concern assessment, including reasonable downside sensitivities which take into account the uncertainties in the current operating environment including amongst other matters demand for the group's products, its available financing facilities, and movements in interest rates. These show that the group should be able to operate within its recently amended banking facilities and comply with its new banking covenants.

Taking into account the above uncertainties and circumstances, the directors formed a judgement that there is a reasonable expectation that the company and the group have adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the group's annual consolidated financial statements.

## **2. Segmental analysis**

The board has been considering the information that is presented to them on each of the trading divisions. In view of this, information on reporting segments has been amended accordingly. For management purposes, the group is currently organised into five operating segments:

- Express Gifts – direct mail order businesses in the UK, offering online and via catalogue a broad range of home and leisure items, clothing, toys and gifts supported by a flexible credit offer;
- Kleeneze – marketing company, specialising in supplying household and health & beauty products to customers through a network of independent distributors across the UK and the Republic of Ireland;
- Kitbag – retailer of sports leisurewear and official football kits both through its own online operation, kitbag.com, as well as a number of partnership relationships with football clubs and other sports organisations whereby Kitbag manages a range of retail, online and/or mail order channels;
- Education Supplies – supplier of resources and equipment (excluding information technology and publishing) to schools and educational establishments in the UK;
- Healthcare – operator of outsourced Integrated Community Equipment Services (“ICES”) contracts for NHS trusts and local authorities, and supplier of rehabilitation and care equipment to the public and private sectors via catalogue and the internet.

Previously there were additional segments which have now been terminated. These have been grouped under terminated operations.

Segment information about these operating segments is presented below.

## 2. Segmental analysis (continued)

52 weeks ended 1 April 2011

	Home Shopping			Education Supplies £000	Healthcare £000	Terminated £000	Total Total £000
	Express Gifts £000	Kleeneze £000	Kitbag £000				
<b>Segmental revenue</b>							
Sale of goods	149,926	59,872	58,017	125,778	46,933	8,161	448,687
Rendering of services	28,626	-	-	-	19,731	-	48,357
Interest	43,705	-	-	-	-	-	43,705
<b>Total revenue</b>	<b>222,257</b>	<b>59,872</b>	<b>58,017</b>	<b>125,778</b>	<b>66,664</b>	<b>8,161</b>	<b>540,749</b>

	Home Shopping			Education Supplies £000	Healthcare £000	Terminated £000	Unallocated £000	Total Total £000
	Express Gifts £000	Kleeneze £000	Kitbag £000					
<b>Loss after tax</b>								
Continuing operating profit before exceptional items and terminated operations	16,506	4,443	1,867	1,746	2,147	-	-	26,709
Terminated operations	-	-	-	-	-	(2,264)	-	(2,264)
Other exceptional items (note 3)	(4,628)	(237)	(340)	(1,744)	(471)	(251)	(13,197)	(20,868)
<b>Reportable segment result</b>	<b>11,878</b>	<b>4,206</b>	<b>1,527</b>	<b>2</b>	<b>1,676</b>	<b>(2,515)</b>	<b>(13,197)</b>	<b>3,577</b>
Loss on disposal of businesses								(1,482)
Gain on release of debt in consideration of allotment of convertible ordinary shares (note 7)								32,874
Finance income								5,864
Finance costs								(42,211)
Loss before tax								(1,378)
Tax								9,902
<b>Profit after tax</b>								<b>8,524</b>

## 2. Segmental analysis (continued)

52 weeks ended 2 April 2010

	Home Shopping			Education Supplies £000	Healthcare £000	Terminated £000	Total Total £000
	Express Gifts £000	Kleeneze £000	Kitbag £000				
<b>Segmental revenue</b>							
Sale of goods	151,471	64,356	48,309	141,800	46,133	53,162	505,231
Rendering of services	34,430	-	-	-	17,375	-	51,805
Interest	43,139	-	-	-	-	-	43,139
<b>Total revenue</b>	<b>229,040</b>	<b>64,356</b>	<b>48,309</b>	<b>141,800</b>	<b>63,508</b>	<b>53,162</b>	<b>600,175</b>

	Home Shopping			Education Supplies £000	Healthcare £000	Terminated £000	Unallocated £000	Total Total £000
	Express Gifts £000	Kleeneze £000	Kitbag £000					
<b>Loss after tax</b>								
Continuing operating profit before exceptional items and terminated operations	20,231	6,458	1,723	2,096	2,559	-	-	33,067
Terminated operations	-	-	-	-	-	(64,260)	-	(64,260)
Other exceptional items (note 3)	(3,325)	-	-	(10,093)	(470)	(376)	(2,431)	(16,695)
Pension curtailment gain	-	-	-	-	-	-	6,624	6,624
Share of result of associate	-	-	-	-	-	-	(434)	(434)
<b>Reportable segment result</b>	<b>16,906</b>	<b>6,458</b>	<b>1,723</b>	<b>(7,997)</b>	<b>2,089</b>	<b>(64,636)</b>	<b>3,759</b>	<b>(41,698)</b>
Finance income								10,295
Finance costs								(43,423)
Loss before tax								(74,826)
Tax								561
<b>Loss after tax</b>								<b>(74,265)</b>

## 3. Exceptional items (excluding terminated operations)

	2011 £000	2010 £000 (Restated)
<b>Exceptional operating costs</b>		
Pension curtailment gain	-	(6,624)
Other exceptional items		
- Restructuring costs	16,206	5,451
- Warehouse reorganisation costs	1,924	4,188
- Onerous lease provisions	205	6,680
- Forensic accounting review fees	1,558	-
- Abortive disposal costs	724	-
<b>Exceptional other items</b>		
Gain on release of debt in consideration of allotment of convertible ordinary shares	(32,874)	-
<b>Exceptional financing costs</b>		
Debt refinancing costs	16,649	12,157
	<b>4,392</b>	<b>21,852</b>

### 3. Exceptional items (excluding terminated operations) (continued)

Restructuring costs in the 52 weeks ended 1 April 2011 relate to the Express Gifts operating segment £2,389,000 (2010: £1,557,000), the Kleeneze operating segment £98,000 (2010: £nil), the Kitbag operating segment £205,000 (2010: £nil), the Education Supplies Division operating segment £1,452,000 (2010: £1,989,000) and the Healthcare Division operating segment £316,000 (2010: £43,000), with the remainder £11,746,000 (2010: £1,862,000) not allocated to a specific operating segment.

In the 52 weeks ended 1 April 2011 warehouse reorganisation costs relate to the Express Gifts operating segment £1,722,000 (2010: £1,768,000), the Education Supplies Division operating segment £nil (2010: £1,701,000), and the Healthcare Division operating segment £nil (2010: £427,000), with the remainder £202,000 (2010: £292,000) not allocated to a specific operating segment.

The onerous lease provisions for the 52 weeks ended 1 April 2011 relate to the Education Supplies operating segment £nil (2010: £6,403,000), with the remainder £205,000 (2010: £277,000) not allocated to a specific operating segment.

Forensic accounting review costs relate to the Express Gifts operating segment £517,000, the Kleeneze operating segment £139,000, the Kitbag operating segment £135,000, the Education Supplies Division operating segment £292,000 and the Healthcare Division operating segment £155,000, with the remainder £320,000 not allocated to a specific operating segment.

The abortive disposal costs of £724,000 are not allocated to a specific operating segment.

Exceptional financing costs are discussed in note 7.

### 4. Terminated operations

In the current year, the operations of Webb, Confetti and IWOOT were sold and as such are disclosed separately as terminated operations. Together with the terminated operations in prior periods, The Cotswold Company and Letterbox, these businesses have been separately disclosed within the "terminated operations" column on the face of the income statement. All of the terminated operations related to operating segments which previously operated within the Home Shopping operating segment.

	Turnover		Loss before tax and exceptional items		Exceptional items	
	2011 £000	2010 £000	2011 £000	2010 £000	2011 £000	2010 £000
Terminated operations	<b>8,161</b>	53,162	<b>(2,264)</b>	(64,260)	<b>(251)</b>	(376)

### 5. Tax income

	2011 £000	2010 £000
Current tax	461	469
Deferred tax	<b>(10,363)</b>	(1,030)
	<b>(9,902)</b>	(561)

## 6. Earnings per share

	2010 £000	2010 £000 (Restated)
Net profit/(loss) attributable to equity holders of the parent for the purposes of basic and diluted earnings per share	<u>8,524</u>	(74,265)
Losses from terminated operations	3,997	64,636
Other exceptional items (net of tax)	13,939	14,029
Gain on release of debt in consideration of allotment of convertible ordinary shares	(32,874)	-
Exceptional pension curtailment gain (net of tax)	-	(5,109)
Exceptional finance costs (net of tax)	<u>11,257</u>	9,129
Net profit attributable to equity holders of the parent for the purpose of continuing earnings per share*	<u>4,843</u>	8,420
Weighted average number of shares in issue (as previously reported)	821,824,653	377,402,818
Equity issue adjustment	-	219,993,263
Weighted average number of shares (revised)	<u>821,824,653</u>	<u>597,396,081</u>
Earnings/(loss) per share – basic	1.04p	(12.43)p
Earnings per share – continuing* basic	0.59p	1.41p
Earnings/(loss) per share – diluted	1.04p	(12.43)p
Earnings per share – continuing* diluted	0.59p	1.41p

\* continuing operations before exceptional items and terminated operations

Following the Rights Issue and Placing of 1,229,408,488 ordinary shares announced on 11 February 2011 and approved at the company's extraordinary general meeting on 28 February 2011, in accordance with paragraph 26 of IAS 33, "Earnings per share", the group has treated the discount element to the open offer part of the increase in share capital as if it were a bonus issue, using the theoretical ex-rights price of 8.53p. The effect of this is to increase the weighted average number of shares reported in the prior period, with a resulting reduction in the reported basic and diluted earnings per share for the period ended 2 April 2010.

The earnings per share attributable to the convertible ordinary shareholders is £nil.

## 7. Issue of shares and refinancing

On 11 February 2011, the group announced the rights issue of 1,223,605,440 ordinary shares and the placing of 5,803,048 ordinary shares at 6.54p and 8.53p respectively. This was approved at the company's Extraordinary General Meeting on 28 February 2011, and the shares were issued on 1 March 2011 in respect of the placing and 16 March 2011 in respect of the rights issue. Total proceeds raised were £80,519,000, less £1,061,000 relating to shares transferred to the Employee Benefit Trust, and associated costs of the equity raising of £4,835,000, resulted in net proceeds of £74,623,000.

The group further entered into agreements for the provision of new lending facilities on 11 February 2011, which were implemented by way of amendment and restatement of the previous revolving credit facilities, and an amendment to the £105,000,000 securitisation facility.

The key amendments to the commercial terms of these facilities were as follows:

- the facilities expire on 22 March 2016.
- the available amount under the two revolving credit facilities will vary between £196,742,000 and £131,742,000 in accordance with the seasonal working capital requirements of the group's business; and
- interest is charged at 3% over LIBOR for the two revolving credit facilities.

## 7. Issue of shares and refinancing (continued)

The lenders and the trustees of the group's defined benefit pension schemes hold fixed and floating charges over the majority of the group's assets. £40,000,000 of the proceeds of the Rights Issue were used to reduce the revolving credit facilities. In addition, a further £40,000,000 of indebtedness was released in consideration of the allotment and issue of 166,878,704 convertible shares to the lenders. In accordance with IFRIC 19, the gain of £32,874,000 arising on the difference between the debt released of £40,000,000 and the fair value of the convertible ordinary shares of £7,126,000 has been recognised in the income statement as an exceptional gain (see note 3).

The group incurred exceptional costs in the period of £16,199,000 in respect of fees associated with these amendments to its credit facilities which has been accounted for as an extinguishment in accordance with IAS 39. Consequently the unamortised issue cost of the old arrangement facility of £450,000 has also been charged to the income statement.

## 8. Loss on sale of terminated operations

Terminated operations comprise the Webb Group Limited sold on 8 June 2010, CWIO Limited (formerly Findel Direct Limited), Confetti Network Limited and I Want One of Those.com Limited sold on 11 August 2010, and The Cotswold Company and Letterbox terminated in 2009. All the terminated operations were part of the Home Shopping operating segment. The results of the terminated operations are presented in a separate column in the income statement.

	2011 £000
<hr/>	
<b>Consideration and costs</b>	
Consideration	702
Sale costs	(1,571)
	<hr/> (869) <hr/>
<b>Net assets sold</b>	<b>613</b>
<b>Loss on sale</b>	<b>(1,482)</b>
	<hr/> (869) <hr/>
<b>Net cash outflow from sale of terminated operations</b>	
Cash consideration	702
Sale costs paid	(1,571)
Cash and cash equivalents sold	(1,161)
	<hr/> (2,030) <hr/>

## 9. Related party transactions

Transactions between the company and its subsidiaries, which are related parties of the company, have been eliminated on consolidation and are not discussed in this note.

There were no related party transactions to be disclosed for the period to 1 April 2011.

During the period 4 April 2009 to 23 July 2009, the date on which the remaining 70% of the shares of the group's associate, Webb, were acquired, the group made purchases from its associate on normal commercial terms of £1,600,000 and in the same period the group supplied goods and services to its associate of £10,000. During the same period interest income of £853,000 was recognized on the loan to Webb.

The group had a trading relationship with Herbert Walker & Son (Printers) Limited ("Herbert Walker"), a commercial printing company which was controlled by Mr K Chapman, a former director (retired 1 April 2010). During the period to 2 April 2010, group purchases from Herbert Walker on normal commercial terms amounted to £470,000 and in the same period the group supplied goods and services to Herbert Walker of £120,000. At 2 April 2010, the group indebtedness to Herbert Walker was £20,000 and that of Herbert Walker to the group was £10,000.

## 9. Related party transactions (continued)

The group also had a trading relationship with Collisons Limited, a stationery supply company which was controlled by Mr K Chapman, a former director (retired 1 April 2010). In the period to 2 April 2010, purchases from Collisons amounted to £20,000. There were no sales to Collisons in the period. All transactions were made on normal commercial terms. At 2 April 2010, the group indebtedness to Collisons was £20,000.

On 1 April 2008, the company entered into a five-year agreement with A F K Nelson Limited on normal commercial terms in respect of premises at Nelson which it uses for warehouse and distribution. The annual rent is £175,000 and the lease is terminable on six months' notice by either party. The directors of A F K Nelson Limited are Jonathan Chapman and James Chapman, who are related to Mr K Chapman, a former director (retired 1 April 2010). Subsequently, a new lease dated 30 March 2011 was entered into, with revised terms; a one-year agreement with annual rental of £88,000 and terminable on four-months notice.

The company was party to a five-year lease with Shawbrook Developments Limited on normal commercial terms in respect of premises at Padiham which it uses for warehouse and distribution. The annual rent is £300,000 and the lease is terminable on six months' notice by either party. James Chapman is a director of, and shareholder in, Shawbrook Developments Limited and is related to Mr K Chapman, a former director (retired 1 April 2010). Subsequently during the period ended 1 April 2011, the break option on this agreement was exercised.

The group leases its premises at Hyde from Ham 450 LLP, an unrelated third party, at £852,000 per annum following its sale and leaseback by the group on normal commercial terms on 1 April 2009. The premises have a charge over them in favour of Mr K Chapman (a former director) and certain members of his family arising from a loan to assist with the purchase of the premises.

The remuneration of the directors including consultancy contracts and share-based payments, who are the key management of the group, is summarised below.

	<b>2011</b>	2010
	<b>£000</b>	£000
Short-term employee benefits	<b>2,182</b>	1,829
Termination payments	<b>387</b>	1,042
Post-employment benefits	<b>152</b>	244
	<b>2,721</b>	3,115
Share-based payments	<b>(118)</b>	1,532
	<b>2,603</b>	4,647

## 10. Contingent liabilities

### *Payment protection insurance*

The company's largest subsidiary, Express Gifts is regulated by the Financial Services Authority ("FSA") as an insurance intermediary and, as such, is permitted to sell general insurance products, including Payment Protection Insurance ("PPI"). Express Gifts sold around 267,000 PPI policies in the period from January 2005 to August 2008.

The FSA published its final policy statement (PS 10/12) concerning the assessment and redress of PPI complaints on 10 August 2010. The British Bankers' Association sought a judicial review of this policy statement and of related guidance issued by the Financial Ombudsman Service. The judicial review was heard at the start of 2011 and concluded in favour of the FSA in April 2011.

Notwithstanding this judicial review, Express Gifts reviewed its processes for handling complaints relating to the potential mis-selling of PPI in due time. However, to date, it has only received complaints from around 1% of customers, which is very low relative to the number of policies sold, of which less than 5% have been upheld indicating an absence of systemic mis-selling.

At this time, and in the absence of further evidence, it is not felt possible to make a reliable estimate of the provision, if any, which may be required as a result of any future increase in the level of complaints received and upheld resulting from the new handling procedures.

### **By order of the board**

**R W J Siddle**  
**Chief executive**  
**6 June 2011**

**T J Kowalski**  
**Finance director**  
**6 June 2011**

## **Directors' responsibility statement pursuant to the Disclosure and Transparency Rules 4.1.12**

We confirm to the best of our knowledge:

1. the annual announcement, prepared in accordance with the applicable set of accounting standards, give a true and fair view of the assets, liabilities, financial position and profit or loss of the company and the undertakings included in the consolidation taken as a whole; and

2. the Chairman's Statement, the Chief Executive's Report and the Finance Review includes a fair review of the development and performance of the business and the position of the company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties they face.

The names and functions of the Directors of the Company are:

Mr D A Sugden	Chairman
Mr R W J Siddle	Chief Executive
Mr T J Kowalski	Group Finance Director
Mr P B Maudsley	Managing Director, Home Shopping
Mr E F Tracey	Senior Independent Director
Mr M L Hawker	Non-Executive Director
Mr S S McKay	Non-Executive Director
Mrs L C Powers-Freeling	Non-Executive Director